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OPINION AND COMMENT

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OPINION AND COMMENT

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This publication of the Bureau of Economic and Business Research of the University of Illinois rests upon the belief that business men of the State will appreciate interpretative comments on current events. Because studied opinions on the significance of current trends are often more thought-provoking in the conduct of business affairs than mere tabulations of data would be, the Bureau supplements its research bulletins by producing *Opinion and Comment* as another type of service to the State.

The opinions expressed in the articles are, of course, the personal views of the respective authors and not necessarily those of the College of Commerce or the University.

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Advertising During the "Emergency"

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A RECENT poll of the members of the Association of National Advertisers disclosed that 69 per cent contemplated making no change in their advertising plans as a result of the defense program, 19 per cent planned to increase their advertising appropriations, and only 9 per cent were curtailing them.

Advertising by retailers is booming in most cities.

These are the facts, but should they be? Is it not silly and wasteful to continue advertising when it is impossible to supply the demand already existing? As we struggle to adjust ourselves to a scarcity or deficit economy, why should we continue to behave as if we were still in the former economy of plenty or surplus? Would it not be more sound, from the economic standpoint, to discontinue much of our advertising and conserve the money that is being invested in it?

Shall we conjure up a conceivable, concrete case? A company that makes washing machines is having difficulty in obtaining needed metals, because government officials are giving priority to "defense" industries. The washing-machine manufacturer points out that the current increase in wages enjoyed by families formerly in the lower economic strata will now, for perhaps the first time, permit them to buy washing machines, thereby freeing the housewives from the back-breaking drudgery of the washboard. The O. P. M. representative weakens and allows him to have a part of the metal he needs.

Then they discuss prices to be charged for the washing machines, as this matter can no longer be left to the operations of economic law. Obviously, the control over raw materials gives the government official considerable power to regulate prices by threatening to withhold supplies. So he says: "You will not be raising the price, will you?" To which the manufacturer replies: "I'll have to raise it a little because my overhead goes on pretty much the same as before and I won't be turning out so many machines. With a factory running at only a fraction of its capacity, the cost per unit is bound to go up." Whereupon the man from Washington retorts: "Then cut out your advertising. There's no sense in advertising when you can sell your entire output without advertising."

The foregoing may be apocryphal, but it might have happened. There is a rumor that it did. At any rate, it presents one of the current problems confronting advertising today.

What possible rebuttal can any such manufacturer have to this argument when an undeniable sellers' market prevails? Why do some stubbornly continue to advertise?

There are several answers.

It should be mentioned here, in passing, that only about one-fourth of the leading advertisers are as yet affected by priorities. The other three-fourths may have sound reasons for advertising. But we are supposed to be discussing the 25 per cent who are already unable to supply the demand for their output. Why should *they* advertise now?

In the first place, these advertisers expect the present "emergency" to end. They are assuming that the war will end and that with it will end, in part at least, the feverish erection of army camps and arms factories, the production of guns and ammunition and fighting planes and fighting ships and tanks. While we may remain for years on a more military footing than in the past, the current vast outlays for arms and armaments are bound to slacken.

These business men anticipate, when this present abnormal era does end, an enormously enlarged capacity for the production of peacetime products—an increase of perhaps 20 per cent or even 25 per cent. With these plants, these machines, these trained workmen, all turning out civilian goods in greater volume than ever before, it is reasonable to expect that we shall revert to a buyers' market with shocking suddenness.

Some of these men are recalling the events which followed the last World War. They have been delving into the advertising pages of the newspapers and magazines of those earlier years when many manufacturers canceled their advertising and discharged their salesmen because their plants were deluged with more orders than could be filled. These present-day business men have learned a lesson from history; they have learned that the firms that followed the practice just mentioned never regained their former position after the War; they have learned that the firms that continued to keep in contact with their customers became the leaders in the post-War years.

To the academic mind, this perhaps seems difficult to believe. But the business man has heard the stories of these business successes and failures told and retold so often that he is convinced of their truth. He remembers the oft quoted words of Bruce Barton, "The advertiser must always remember that he is talking not to an audience, but to a parade." If he permits a part of the parade to pass without receiving his message, he can never reach those prospects again.

A brief stroll through the commercial cemetery may prove enlightening. The tombstones and markers remind us of many a lusty concern stricken after only a few years of trying to exist without advertising. (Could we refer to advertising as Business Vitamin 'A'?) Here lies old Pear's Soap, buried for years. A leader in its day, it neglected to advertise for only three years, lost its market, and then attempted an expensive "comeback" that failed. And here lies Force, the pioneer of flake breakfast foods. Remember Sunny Jim, you oldsters? And you grandmothers will shed a tear at the grave of Sapolio, that one-time leader among household cleansers.

And here is good old Omega Oil, which grandpa used for almost every ache or pain. It was in every household, on the shelves of every druggist, when it was in its prime. Then the founder died, and the widow's banker advised that the large sums spent for advertising be "conserved."

So we continue our sad stroll through the cemetery, reminded of former friends at every turn and speculating on the brevity and uncertainty of business life. But for brief lapses, these old friends might be with us today.

We see new concerns arise and invade the market with new products, and we ponder the fact that they could attain success whereas products formerly popular could not even win their way back after a short period of non-advertising. The saying is common in pugilistic circles that "they never come back." And it seems to be true in business as well, since the oldtimer faces a handicap of public opinion that is almost insurmountable. He is branded as a failure, a has-been, a relic of other days, a commercial Rip van Winkle.

On the other hand, a favorable brand familiarity, brought about largely by consistent advertising, may prove an asset of great value. Arrow stiff collars went out of style, but the Arrow name put over the company's line of soft shirts, soft collars, underwear, and handkerchiefs. Pond's Extract lost sales as a household remedy, but the name had a value that, affixed to cosmetics, helped enormously in the introduction of the new line. If Victor had stopped advertising when record sales dropped so seriously, the company never could have held the lion's share of the business when the sale of records enjoyed its sudden and startling revival.

So we catch a fleeting flash of the business beliefs motivating advertisers today—a conviction, based on the experience of many, many firms, that the surest way to commit business hara-kiri is to let your customers forget you, even for a short time.

This same reasoning applies to all selling effort. Today, many firms are keeping their sales forces intact or even taking advantage of the chance to add some good men who have been let out by competitors. They are seizing the opportunity to cultivate customers while competitors are neglecting them, thus conveying the idea that they value very highly the business of these numerous smaller buyers. After the war, they expect to be entrenched so firmly that belated selling efforts of competitors can not dislodge them.

In England many of the regular advertisers, reluctant to lose the value of carefully cultivated good will, are advertising steadily, although they say frankly that they are unable to supply the demand for their products. They are cannily looking forward to the day when the battle of the brands will be resumed, and they are determined to be among the survivors. Perhaps the highly respected ability of the British to "muddle through" is not entirely the result of muddling.

There are those who disparage or deny the long-range efficacy of

advertising. They decry "institutional" advertising as wasteful because it does not go "all out" in its effort to sell some specific article immediately.

But institutional advertising may well have a far larger place in the present scheme of things than it normally occupies. The institutional, long-range advertiser is talking to people who are not at present in the market for his product. But he knows that they will be in the market at some time in the future. They purchase his kind of goods, such as automobiles or electric refrigerators, only at comparatively long intervals and after considerable deliberation. When they eventually enter the market, their thoughts naturally turn to those brands which have been kept before them. Such "shopping" goods can benefit greatly from a continuous campaign of institutional advertising, even though the advertiser can not supply the immediate demand for his product.

Furthermore, in case the value of the product is hidden, as with packaged foods or drugs, electrical goods, furniture, etc., the reputation of the maker is one of the trusted guides to purchase. As one advertiser reminds us, "The priceless ingredient is the reputation of the maker." To establish such a reputation is the function of some advertising, even in time of scarcity.

A second line of reasoning which prompts many advertisers to continue in the face of a deficit economy may be expressed in some such way as this:

Just how much of a shortage or deficit of goods is there going to be, anyway? Maybe it won't prove to be as serious as it appears right now. Perhaps buying power will shrink to such an extent that there will be enough goods to satisfy the decreased demand.

First, we nurse the hope that certain priorities have been enforced with too much enthusiasm—that perhaps the "defense" industries are currently accumulating stores of materials so that later the government can relax some of the restrictions on buying. When business men are forced to close their factories, when workmen in large numbers are made jobless, when public protest grows too clamorous—then perhaps things will loosen up a bit.

Second, we have a tax program that is destined to hold down buying power for many products. We have a far stiffer income tax, luxury taxes, business taxes—taxes and more taxes. During the last war taxes were not increased so much, but this time we are trying to pay one-half or two-thirds of the war costs as we go. Millions of persons will feel the impact of the income tax on their budgets for the first time next spring. The money they pay out for taxes can not be spent for other things, hence buying power will be curtailed.

Third, most economists predict that the price level will rise, despite all efforts of price administrator Henderson to hold it down. Every rise in price bars some buyer from the market, for incomes seldom rise as fast as prices.

Fourth, we shall witness a patriotic purchase of government bonds by hordes of people in response to the fervent advertising pleas of Uncle Sam. Many of these will deny themselves the pleasure of other purchases in order to buy bonds.

Fifth, the really big boom in wages and employment may have passed its

peak. After all, most of the army camps have been built; new factories to make "defense" goods have been erected and equipped; housing to accommodate the shifts in population has been pretty well completed. From this time on, the feverish construction activity will be somewhat slackened and the curve of employment may level off or even show a decline.

And we must not, in the sixth place, overlook the restrictions placed on installment buying—restrictions which will keep many prospects out of the market permanently so far as the purchase of larger items is concerned.

Finally, much of the recent buying was done in anticipation of price increases and shortages of goods. This advance or forward buying has created the impression of an enormous demand which may prove to be transitory and deceptive. People who have bought new cars, new refrigerators, new clothes, new furniture, new furnaces, and have stored canned goods and sugar against future shortages will be out of the market or, at most, buying in smaller quantities for some time. Merchants, also, have laid in stocks far larger than they ordinarily carry. Their buying, therefore, may decline in the near future.

In view of all these factors, it seems reasonable to assume that future demand may not prove so powerful as present signs might indicate, and that, in consequence, the supply of available goods may not be so far short of the demand for them.

If this proves true, SELLING WILL STILL BE NEEDED. Advertising will be required to maintain a concern's position in the industry as well as to prepare for the post-war struggle for customers.

A third reason why many advertisers are maintaining their schedules today grows out of the sudden shift in population and buying groups. To put it simply—the rich are feeling poor and the poor are feeling rich. This realignment of customers has tossed onto the advertising manager's desk a whole set of new problems, for at the same time he has lost some of his prospects from one economic group and gained new prospects from another group.

All of which means that he has a new job to do—that of educating perhaps millions of potential new customers about his product. He must shift his message to new media, must utilize new appeals, must hit hard and often to win this new market. The increased buying power of farm groups and wage earners—the decreased buying power of salaried workers due to rising prices and taxes—all of these shifts must be studied and the new customers reached at once. Geographical shifts, too, must be taken into account, although this factor will not operate to increase the volume of advertising as will the sudden appearance of millions of farmers and wage earners with spending money in their hands.

A fourth reason for the upturn in the graph of advertising volume lies in the excess profits tax, although its effect is doubtless exaggerated in the minds of many. It is true that the business man can purchase advertising at a bargain, so to speak, by investing his surplus in advertising instead of letting the government take a third or a half of it as tax. But, unless a company needs

to advertise, it would be foolish to do so just because such a procedure would keep Uncle Sam from getting some money. It is doubtful whether this motive is a major factor in the present situation, although it may be a very minor one.

A fifth fundamental, which accounts for some advertising, is the rise of new products, some of which are designed to take the place of certain unobtainable articles. These new products must be advertised generously at the inception of the campaigns to acquaint the public with their merits.

A period of war or "emergency" may be a most propitious time to launch a new product on the market. Witness the ultimate success of the following, which were first advertised during World War I: Cutex, Keds, Wilson sporting goods, Pepsodent tooth paste, Chiclets, Armstrong Cork Company's products, Lucky Strikes, Del Monte canned products, Pyrex ovenware, Palm Beach cloth, Eversharp pencils, Planters peanuts, Bayer's aspirin, Diamond Brand walnuts.

We shall doubtless see a flood of new products pouring into this present brisk market, and many of them will help to swell the volume of advertising.

All this discussion is predicated upon the assumption that we shall retain some semblance of the competitive system. If we should travel the rest of the way toward a completely planned economy, we might find things quite different. Then brands might become obsolete; good will as an item in the balance sheet would disappear; advertising would change in many ways.

It is a temptation to forsake the main road at this point and detour through what one writer has termed "Thurmania" to inspect the brandless economy which Mr. Thurman Arnold visions for the future. Already he has made it clear that he regards as a species of monopoly the possession of a brand name popularized by advertising. But we must hold to the main highway, for our destination is just ahead.

We have attempted to explain the attitude of the American business man toward advertising in the present abnormal situation, whether that business man is among the minority group who are oversold or one of the majority who still have an immediate selling problem.

In the light of all these factors, the conclusion seems clear that the immediate future will witness an increase in institutional advertising by those firms which are oversold, a shift in advertising to reach new markets, the emergence of many new products, and an increase in total volume of advertising.

Regulation of Installment Credit

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TO KEEP us from bidding spiritedly against each other for the limited supply of goods which defense requirements will leave for civilian consumers, the Government is applying pressure against our purchasing power in several tentatively gentle forms. We are told that this is done not only to help keep down prices in the immediate future but to conserve materials needed for defense and to build up reservoirs of consumer demand which industry can tap during our painful reconversion to peacetime pursuits.

The Government has tried to persuade us to surrender to it a part of our purchasing power for defense expenditure through purchase of Defense Savings Bonds. This campaign has been less successful than had been hoped. The threats of shortages and of higher prices have induced many people with modest savings rather to turn their dollars into useful goods. Workers with higher wages and stockholders with promises of higher dividends compete with the Government and the defense industries for available stocks and future production, and those of us with fixed incomes are faced with the prospect of meager fare. Through quick distortion of the "normal" pattern of production, various kinds of squeezes are put on many individuals and firms who would benefit by an increase in ordinary productive activity. There is now talk of persuading employers to pay Christmas bonuses in Defense Bonds.

A recent step taken to slacken consumer demand for increasingly scarce goods is the curb placed upon installment credit. The Federal Reserve Board of Governors, under authority of an act of 1917, in August of 1941 issued a regulation, revised in October, 1941, increasing down payments and limiting terms of payment upon most of the durable consumers' goods which are customarily sold on the installment plan. While this move is not expected to hamstring installment buying, it will play a part in diminishing some consumer demands.

Any dealer or other person who extends installment credit, or any financial institution which discounts or purchases obligations arising out of extension of installment credit, must obtain a license by filing a registration statement with the Federal Reserve Bank of his district, on a form furnished by the Bank, upon request, before January 1, 1942. The registrant will thereafter be required to make such reports as the Board may call for from time to time.

There is little chance of avoiding

the spirit of the regulation by means of calling what are essentially installment purchases by some other name or by buying goods under freak deferred payment plans designed to circumvent it. There are some twenty-five categories of listed articles, under five different classifications according to size of down payment required, and the purchase of any of these goods except for cash in full will be suspect.

Upon all listed articles the delivered price includes accessories, sales tax, delivery and installation charges. From the delivered price thus computed on all listed articles except automobiles the trade-in allowance must be deducted before computing the down payment. For automobiles, the one-third down payment may be met, in whole or in part, by a trade-in. Aircraft, power boats, and motorcycles require a one-third down payment computed in the manner previously mentioned.

The maximum term of payments for all listed articles is 18 months. Mechanical refrigerators, washing machines, stoves, radios, and similar goods call for a 20 per cent down payment. Furnaces and their accessories, water heaters, plumbing fixtures, and furniture require at least a 15 per cent down payment. Other materials and services used in connection with repairs, alterations, or improvements to existing real property, provided the deferred balance does not exceed $1,500, require no down payment but must be paid for within 18 months. These requirements apply to both new and used articles. The regulation is subject to revisions and additions to the list at the discretion of the Federal Reserve Board.

Installments shall be payable in substantially equal amounts at approximately equal intervals not exceeding one month. There is a provision, however, for reduction or omission of payments for a period or periods aggregating not more than 4 months when such a concession is expedient in view of the seasonal nature of buyers' incomes or dealers' attempts to move seasonal goods in off-season periods. Farmers are to be granted further concessions in that they are permitted any schedule of payments so long as the down payment and 18 months maturity provisions are met, and one-half the balance due is paid within one-half the maximum maturity. Even though payment for a listed article is made in cash obtained by borrowing, if the loan is secured by a lien on the article, its amount and repayment must be governed by the regulations applying to installment purchase of the article itself.

There seems to be nothing to prevent one's borrowing on his insurance, savings and loan shares, or stock collateral to buy for cash if he so wishes. The Federal Reserve Board is attempting to prevent borrowing from installment loan sources for purchases for cash of listed articles which are not encumbered to secure the loan. This is to be accomplished by forcing the lender to require borrowers, beginning January 2, to sign a statement as to the purpose of the loan. Installment loans for the purpose of making the down payment on a listed article

are prohibited. Stoppage of this loophole seems to extinguish at the outset the promise of considerably increased business for the personal loan companies.

Listed articles are the only ones affected. There are numerous other credit transactions to which the regulation does not apply. Credit secured by a first lien on improved real estate, credit of more than $1,500 extended for the modernization of existing real property, credit extended to a student for bona fide educational purposes, credit extended for necessary medical or funeral expenses, credit extended for a maximum of 3 months, credit extended to dealers with which to buy listed articles for resale, extension of credit to automobile salesmen for not more than 12 months for the purchase of demonstrators, credit extended to pay fire or casualty insurance premiums for more than one year, extension of credit before January 1, 1942 which does not bring the obligor's total debt to the dealer since September 1, 1941 above $50 and which is to be paid out within 9 months, articles on which the down payment, properly computed, would be no more than $2, and loans to agriculturists or agricultural cooperatives for agricultural purposes are all exempt from the provisions. It is not yet clear whether Government agencies which have been furnishing household appliances to consumers on extremely liberal terms are seriously affected.

Renewals or revisions of installment contracts which might conflict with the spirit of the regulation are guarded against in further provisions. However, the dealer is permitted to make revisions in case an obligor is drafted into military service or if the dealer needs to protect himself against obligor defaults. The granting of new installment credit which will be used to reduce or retire existing installment credit is to be considered a violation of the regulation unless it can be shown that such new credit is needed to avoid undue hardship arising out of unforseeable circumstances. The regulation does not apply to installment obligations outstanding prior to September 1, 1941.

Installment credit may not be granted if any outside loan has been obtained with which to make the down payment. In the case of "lay-away" installment sales it is considered that installment credit has not been granted until the actual delivery of the article. Revisions after September 1, 1941 of installment contracts originating prior to that date must conform with the regulation. The provisions of the regulation do not apply to loans secured by installment contracts, the contract only being subject to the regulation. The regulation does not apply to transactions outside the continental United States. The dealer is at liberty to impose stricter requirements than those prescribed by the regulation.

All persons who deal in any way with installment credit will find it profitable to study the text of the regulation, which has been widely printed in trade association publications in the credit field, and the revision of October. Lack of space

Table 1
Retail Installment Credit Granted
(000,000 omitted from dollar amounts)

Kind of establishment	1938		1937	
	Amount	Percentage	Amount	Percentage
Automobile dealers	$1,325.2	50.9	$2,142.7	58.4
Department stores	375.3	14.4	441.2	12.1
Furniture stores	393.7	15.1	463.3	12.6
Household appliance stores	204.2	7.9	280.8	7.7
Jewelry stores	75.2	2.9	84.6	2.3
All other stores	229.1	8.8	254.2	6.9
Total	$2,602.7	100.0	$3,666.8	100.0

prevents the discussion here of a number of details which may be of considerable significance to particular dealers affected.

To give an indication of some of the particular fields affected by this regulation, four tables have been prepared from data published in 1940 by the National Bureau of Economic Research.

The purpose of Table 1 is primarily to show the kinds of business most greatly affected by installment selling and the percentage of total installment selling which each does. Since there was a business recession in 1938 from the year before, there was a marked reduction in the dollar volume of installment sales. In general, however, the ratios of installment sales for each kind of establishment to total installment sales remained fairly stable, with the automobile dealers decisively dominating the installment market.

Table 2 shows the share of each

Table 2
Installment Cash Loan Consumer Credit
(000,000 omitted from dollar amounts)

Institution	1938		1937	
	Amount	Percentage	Amount	Percentage
Commercial banks	$ 374.9	23.8	$ 305.9	20.7
Credit unions	179.4	11.4	147.5	10.0
Industrial banks	416.9	26.5	409.2	27.7
Personal finance cos.	604.4	38.3	615.3	41.6
Total	$1,575.6	100.0	$1,477.9	100.0

TABLE 3

PERCENTAGE OF RETAIL INSTALLMENT CREDIT GRANTED IN 1938 TO VOLUME OF SUCH CREDIT FOR 1929 AND FOR 1933

Kind of Establishment	1929	1933
Automobile dealers	55.6	177.0
Department stores	100.6	168.1
Furniture stores	57.0	146.7
Household appliance stores	43.7	132.9
Jewelry stores	84.7	232.8
All other stores	77.2	144.9
All retail establishments	60.6	164.3

of the four principal installment cash-lending institutions in the total of installment cash lending in the years 1938 and 1937. These were loans made for consumption purposes and repayable in installments. Here again the share of each in the total remained rather stable. It is to be noted that this type of lending actually increased in 1938 over the previous year, perhaps largely because of the aggressive seeking of this kind of business by the commercial banks in the attempt to put more of their excess reserves into gainful use. This expansion in installment cash lending probably helps to account for the large decrease in retailers' installment sales from 1937 to 1938.

The installment cash loans *outstanding* at the end of 1938 amounted to $937,000,000 distributed as follows: commercial banks $248,000,000; credit unions $113,000,000; industrial banks $230,000,000; and personal finance companies $346,000,000. In addition to these lending institutions, unregulated lenders had $92,900,000, and FHA Title I loans ($2,000 or less) were outstanding in the amount of $137,800,000.

Total installment credit granted by the institutions listed in the two tables in the recession year 1938 amounted to $4,178,300,000 as contrasted with $5,144,700,000 in 1937. Installment credit granted in 1938 was 9.66 per cent of total income payments received by the $5,000-and-under income group of that year, and has averaged around 9 per cent (6.09 per cent to 10.97 per cent) of total incomes for this group for the ten years ending in 1938.

Table 3 shows how the volume of installment credit granted in 1938 compared with that granted in the peak prosperity year of 1929 and in the year 1933 near the bottom of the depression. In 1938 the automobile dealers had regained only 55.6 per cent of their 1929 volume of installment business but were doing 77 per cent more business than in 1933. Department stores had regained the 1929 volume. All other establishments were still well below the 1929 volume of installment business but well above the 1933 volume. Jewelry

TABLE 4

PERCENTAGE OF INSTALLMENT CASH LOAN CONSUMER CREDIT FOR 1938 TO VOLUME OF SUCH CREDIT FOR 1929 AND FOR 1933

Institution	1929	1933
Commercial banks	571.5	815.0
Credit unions	430.2	552.0
Industrial banks	100.9	206.8
Personal finance cos.	130.6	198.7
All lending institutions	160.2	269.7

and automobiles, luxury or semi-luxury goods, showed the greatest expansion in response to easing of depression conditions, as might be expected, but had by no means recovered 1929 volume.

Retail installment sales have averaged about 11 per cent of total retail sales for the past ten years. For the year 1938 the percentage of installment sales to total sales for automobile dealers was 57; for department stores, 10.6; for furniture stores, 41.9; for household appliance stores, 47.6; and for jewelry stores, 27.2. Total retail sales reported to the Bureau of the Census for 1939 amounted to $42,042,000,000, of which 11.4 per cent was on installment credit. Installment sales for 1940 are estimated at about $4,700,000,000, or 10.4 per cent of all retail sales.

Table 4 shows that by 1938 all installment cash-lending institutions had more than recovered their 1929 volume of loans, with commercial banks and credit unions showing rather startling percentage increases. These percentage figures are misleading in that the volume of consumption credit granted by these institutions on installment loans in 1929 and 1933 was small in amount. The credit unions were then more concerned with building up their loanable funds than with consumption loans, and it was only after the low point of the depression had passed that commercial banks began to take any substantial interest in this type of lending. The apparently large increase in the volume of installment cash lending by the commercial banks and the credit unions helps to explain the much more modest recovery of the industrial banks and the personal finance companies.

In 1939 retailers financed 51.6 per cent of installment purchases, finance companies 36 per cent, and commercial banks 12.4 per cent. Total installment credit outstanding at the end of 1938 was $3,355,200,000 as compared with $3,847,000,000 at the end of 1937.

The initial impact of installment buying regulation will be felt according to the competitive situation in each community. Automobiles have been sold in a few places on a

down payment as small as 10 per cent. Furniture, household appliances, and jewelry have been sold with nothing down and as much as 48 months in which to pay. In communities with higher retailing standards, cash-loan installment credit has often stepped in to equalize the over-all installment buying situation with that existing where retailers' terms were more liberal.

In spite of the regulation, some groups of consumers will now be better able to do installment buying than they have been recently, because their incomes will be higher. However, retail installment sales in communities not directly touched by defense industry, in low-income communities, and in places accustomed to very liberal terms will no doubt be adversely affected. Cash-loan agencies which have financed much consumer buying on the installment repayment plan are likely to be forced away largely from chattel mortgages into pure character loans. There seems little doubt that such lending business will be appreciably curtailed rather than that these agencies will assume the high risks of unsecured consumption loans.

A Brookmire chart in the September issue of *Retail Management* purports to indicate the spending trend for 1941-42. For the United States as a whole, spending is indicated as up about 30 per cent from a year ago and up 37 per cent from the 1938-41 average. For Illinois, the percentage increases are indicated as 28 per cent and 34 per cent, respectively. The spending trend in other states shows in general greater increases over the three-year average—up to 71 per cent—although an increase of as little as 17 per cent is indicated in one state. The basis for these figures is not shown and they should perhaps be accepted with reservations.

A guess might be hazarded that retail installment credit in the United States as a whole will remain close to its present dollar volume, with higher incomes just about offsetting the repressive effects of the regulation, but that cash loan installment credit may be appreciably depressed. Those with small incomes will have to go longer without conveniences and acquire habits of abstinence and saving if they are to obtain certain articles to the purchase of which their current incomes were previously committed by installment buying on liberal terms.

It is noteworthy that the limitations on installment credit imposed by the regulation are substantially those toward which the credit associations have been urging their members, even in the face of extreme competition from some Government agencies such as the Electric Home and Farm Authority and the TVA. The suddenness and inflexibility of the Federal Reserve Board's assumption of control, which has disrupted the evolutionary progress of changes for which the need was self-recognized, will doubtless prove burdensome in many instances. Much of the success of the regulation depends upon the integrity of the credit institutions and their customers, and it is to be hoped, for

the good of the dealer and the customer and sound credit practice, that we have no experience with this regulation similar to our experience with the Volstead Act.

These installment standards, or some modifications of them dictated by the experience of the near future, may have become permanent by the end of the emergency. The installment credit institutions now have the opportunity to test the standards they have been advocating under conditions of uniform competitive practices. Consumer and supplier reactions over time should prove whether the standards are soundly conceived.

Objectives and Impetus of the Consumer Movement

George R. Beam, '41*

IN DEFINITION the consumer movement is neither complex nor extraordinary. In implications and possible effects, it is both. Broadly construed, the consumer movement is merely a large-scale movement of millions of people clamoring for more information about what they buy. Werner K. Gabler defines it as follows: "The consumer movement in the widest sense of the term consists of all the efforts, organized and unorganized, to make the consumer a wiser buyer and user of those products and services which she acquires in her capacity as a consumer. The purpose of these efforts is to raise the standard of living of the consumer by making her recognize more clearly her wants and needs and by equipping her with knowledge and factual information to help her satisfy them."

In fairness, any intelligent discussion of the consumer movement must recognize the fact that many business men, statesmen, and educators conceive the *real* consumer movement to consist of those information agencies which make a profit by attacking business. Indeed, many have asserted that these agencies are Red-ridden—aimed at the destruction of American private enterprise. The "millions of people" claimed for the movement are said by those with this point of view to be merely the rim of the wheel, blindly following the gyrations of the hub. To settle this moot question definitely would require much more factual information than is available at the present time, but analysis of the origin and objectives of the consumer movement should help in forming a sounder opinion.

Much has been written and surmised concerning the causes of the

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movement. On this score, W. T. Nardin, speaking before the Association of National Advertisers, said that such a movement was easily accounted for by the conditions of the past ten years. "With millions of men willing to work but unable to find employment, is it strange that those millions, and other millions who sympathize with them, should be dissatisfied with, even distrustful of, the institution to which they can look for employment—business?"

Although this view seems to provide an adequate starting point, the sources of the consumer movement are not so easily dismissed. In his book *Labeling the Consumer Movement* Mr. Gabler presents an excellent discussion of this topic. One of the sources, he says, certainly is the change from a rapidly expanding to a more stable economic system. Not so many years ago, American industry was growing at a terrific rate of speed. Free land was plentiful. Wages were high. Employment was excellent. A huge demand was unsatisfied. A seller's market existed. Population was increasing by leaps and bounds.

Today, much of this has changed. Although temporarily the spending for national defense has revived several of the favorable conditions mentioned, we are attempting to analyze this problem with some semblance of normalcy as a standard. Free land no longer exists. The rate of population growth is declining. Until the current spending program went into effect, a buyer's market existed. The possibilities of expansion by way of foreign markets are definitely limited in everything except the artificially booming materials of war. In the future industry must depend for expansion on more intensive cultivation of the existing consumer market. This prospect calls for better business-consumer relations.

Still another factor contributing to the formation of the consumer movement is the change from a producer to an exchange economy. A half-century ago, the family was the producing unit in this country. Today, almost nothing is produced in the home. Factories and mass-production are an integral part of the American picture. The consumer must rely on the integrity of an outside producer to keep her family supplied with a steady flow of the right kind of goods. Mr. Gabler says: "Whether the family with a given income can procure a higher or lower standard of living today no longer depends upon how good a producer the housewife is, but primarily upon how good a buyer she is. The housewife's buying, thus, is her peculiar type of producing."

Another factor has been the psychology developed by the American people as a result of the great depression through which we have just passed. With the family income definitely limited, Mrs. Housewife found that she had to make every dollar count. It was then that she discovered that there existed no information that would actually aid her in determining the relative value of products. She demanded to be supplied with this information.

And then there is always our old friend — or bugaboo — technological

progress. This amazing phenomenon has materially raised the American standard of living. But it has also resulted in the pouring of a great profusion of products on the market. This flow of new products has been so tremendous that extravagant assertions have sometimes been necessary to insure their adoption. Mr. Producer found that he could sell more successfully to Mrs. Housewife by appealing to her emotions rather than to her reason. Informative material about his product became more and more scarce; his emotional appeals grew more and more importunate. Mrs. Housewife is now requesting the specific information that has been withheld from her.

As competition has steadily increased, marketing methods have thus been forced to undergo changes. Mrs. Housewife is subjected to more high-pressure sales efforts than ever before. Advertising assertions become more and more extravagant. She suspects that some of these statements must be false. She wants to know which ones are false.

Then, too, the tremendous spread of general education in this enlightened country has caused the American people to take more interest in economic problems. The depression made the average American anxious to find out just what was wrong. Here was something that vitally affected him.

The actual size of the consumer movement is extremely difficult to determine, especially if we define the movement in terms of all the individuals interested in it. Estimates which have been made by several sources place this number at between twenty-five and thirty million people. But a word of caution is in order at this point. A recent survey made by the Consumer Division of the Crowell Publishing Company gave a comprehensive list of the organizations interested. Any such listing exaggerates the numbers, because many of these organizations overlap. That is, many members of the National League of Women Voters are also members of the American Association of University Women, the American Home Economics Association, the General Federation of Women's Clubs, and so on. Yet the membership of each of these organizations is tallied separately in reaching the grand total. Therefore, this twenty-five million figure should probably be reduced considerably.

Now just what do these people want? What are the objectives of this consumer movement? These are fair questions, and, unlike many others in connection with the movement, are not difficult to answer. The demands of the various consumer groups are fairly well standardized. Roughly, these objectives may be summarized as follows:

First, the establishment of a Federal Department of the Consumer as a permanent cabinet position. This department would be expected to safeguard consumer interests. Improper business practices that are now possible under existing laws would be effectively dealt with in the best interests of the consumer. To business, of course, this objective presents the possibility of still greater governmental control. Edward H. Gardner, special reporter, in an article published in

Printer's Ink, April 11, 1941, says: "The consumer would be taught to rely on Government information as a guide to buying. This is a broad doctrine. The axe is laid to the root of the tree. The manufacturer would retain the right to make goods, but his right to sell them would be largely assumed by Government."

On this score there is no use in deluding ourselves. Since President Roosevelt appointed Miss Harriet Elliott to the post of National Defense Consumer Commissioner, a Federal Department of the Consumer has ceased to be an objective of the consumer movement and has become an accomplished goal. Government control is already moving in, but the effects have not harmed business—as yet. The best defense for business is to swim with the tide rather than against it. By giving the consumer what she demands, and by this means alone, business can forestall too great an inroad by government into its hallowed sanctum. The editors of *Sales Management* in the issue of February 15, 1941 said that "business will continue to be at a disadvantage as long as it maintains its almost traditional stand-off attitude with relation to its consumers. While it is plain that in some instances individual manufacturers have done notable work in cementing their contact with consumers, even those jobs have been shown to be insufficient in view of present-day trends."

Continuing, the article stresses the fact that it is not to the interest of business to remain inactive while Government and agencies working closely with it appear as the champions of consumer rights and protection—a role which should naturally belong to makers and suppliers of consumer goods, who depend on the public for existence. "Such a position is fundamental. Business does not need and should not have intermediaries. It should do its own job, and must, if it is to weld to itself the consumer support necessary to safeguard the right of business to make and sell goods and show a profit in the process. It must start out by evidencing a sincere interest in consumer desires, and by working directly with customers in meeting every reasonable and helpful demand."

As a second objective, the consumer movement desires to keep pressure groups actively engaged in promoting legislation to protect the consumer from dangerous products, false advertising, etc. Organized lobbies are doing just this. The solution does not seem to be the development of stronger lobbies by business, but rather the removal of the reasons which have brought about the activity of consumer lobbies. Business has already felt the force of hot accusations concerning moneyed lobbying activities. An intelligent program of consumer education is needed.

Third, consumers want informative labels for products. These, it is contended, should give adequate information concerning materials, care, and value of the product, thus providing the consumer with a tangible basis for making her choice. The mail-order houses have recognized the value of such a device for some

time. Other businesses have been slower to follow. However, at the present time the trend seems to be definitely toward informative labeling. The real question is what to put on the label. That business in general is already devoting itself to a solution of this problem is indicated by the action of the National Retail Dry Goods Association's Merchandising Division. This group has made an extensive questionnaire survey of consumers in an attempt to solve this problem. It was found that nine informational points are desired: washing instructions, material content, size, special care, grade or quality, directions for use, construction or workmanship, purpose for which intended, and the presence of weighting or sizing. Every type of business could make such a survey. Here is an intelligent approach to the solution of a problem which would be satisfactory to all concerned.

Fourth, all manufacturers should be required to label their products according to a pre-established grade. This plan would make apparent at a glance the grade of product one would find in the can, regardless of the manufacturer's label appearing thereon. This recommendation has been the cause of great controversy. Nevertheless, it is interesting to note that already the Department of Agriculture has set up a voluntary grading service which is not yet able to take care of all the canners desiring it. Of course, several arguments have been advanced against grade labeling. Among these are: (1) It is much easier to sell ideas than goods; therefore, there is no guarantee that the consumer will support grade labeling once it is established. (2) Education of the consumer in the use of the grades used is a big problem, especially since many consumers are not interested enough to learn what the grades mean. The Department of Agriculture of Canada has a very successful advertising program under way which is making consumers familiar with grading standards—a proof that the problem is not insurmountable. (3) The consumer is not interested in buying to specifications. She is interested in buying satisfactions. Selling by specifications should be the legitimate function of the retailer, and he should be responsible for the results. (4) Fixing of formulae for quality would straitjacket manufacturers and retailers and would "freeze" quality standards. (5) Manufacturers would produce a "B-minus" rather than a "B-plus" product; there would be no means of differentiation. (6) Poor crop years would necessitate changes in the standards; thus endless education would be needed, and the consumer could never be certain of what she was buying. (7) Americans are fussy about what they eat—they would never buy a grade C. In answer to this argument, however, consumer groups urge education as to grade C items, declaring that they represent high nutritive value at economical prices and should be used by a larger proportion of homemakers.

Further impetus to grade labeling was given by the announcement that the Great Atlantic & Pacific Tea Company will apply grade labels to

its entire line of canned fruits and vegetables. Educational work, through advertising, will have to be undertaken by business. Educational work through better-informed retail salespeople is another possible solution. When this is accomplished, it is entirely possible that the better manufacturers will be in a stronger position than they are now. By co-operating with the consumer in large surveys, business can discover how to grade. The responsibility for making use of the available information then rests with the consumer.

A fifth objective of the movement is to force manufacturers to adopt minimum standards of manufacturing below which no product shall fall. The fallacy of such regulation is obvious. Many people *want* to buy low-standard merchandise. Perhaps this grade is all they can afford, or it may serve their particular need. The popularity of "seconds" as bargain attractions seems to support this argument. Setting a minimum standard of manufacturing would, therefore, actually work a hardship on many of the people it was designed to help. A large portion of the lower-income market would be eliminated from purchasing status. It seems that with the establishment of informative labeling this problem will be solved. After all, if the consumer knows he is purchasing sub-standard merchandise and still wishes to do so, why should he be prevented?

Objective number six is to standardize the sizes of bottles, cans, and boxes so that no matter where a product is purchased, the consumer knows she is getting the same size that is being sold elsewhere. It is a well-known fact that there are merchants (some chains are accused of doing this) who are able to sell branded goods at a lower price because they secure them, specially packed, in containers a little below the normal in size. The many canners who are engaged in selling this type of product to these merchants naturally fear that if the consumer forces a standardization in container sizes this valuable market will be lost. Authorities say, however, that such a result would not necessarily follow. If firms are not able to buy these undersized products anywhere, and consumer pressure will not permit them to be manufactured under their own labels, it follows that they must purchase normal-sized containers. This change will eliminate two evils, and in so doing will be beneficial both to concerns that resort to such practices and to those who do not. (1) The former will benefit because one of the grounds on which some customers have long distrusted them will have been removed; and (2) the latter will be benefited because an unfair weapon will have been taken away from their competitors, which would thereafter have to depend upon legitimate savings made through their large-scale operations.

The seventh objective of the movement needs no explanation. It is to endorse "Consumers' Research," "Consumers' Union," and similar agencies in the belief that such action will promote the activities of these organizations which furnish buying guides.

The eighth objective is to require advertisers to use more facts and less emotional appeal in their advertising. Such a requirement, it is said, would provide a more intelligent basis of buying discrimination for the consumer. The Wheeler-Lea amendment and the new Pure Food and Drug amendments are both doing an excellent job in cleaning up advertising evils. But the consumers want more. It is not enough, they say, for advertising to be truthful; it must also be factual. The merits of this proposal bear much closer study. How many facts will consumers read? Do we not, at the present time, skip over the factual portions of advertisements? Business must discover the fine balance which exists at some point between the factual and the emotional.

The ninth and final objective is to promote the establishment of consumers' cooperatives throughout the country. These are stores operated by consumers for consumers. They differ from other forms of cooperative enterprises in that they are designed to raise the standard of living of consumer members by economizing on purchases rather than to increase the profits of individual members by enabling them to sell their products to better advantage.

Obviously, if business is to solve the problems presented by the consumer movement it must do so by consumer education, carried on not by outside, profit-making enterprises, but by business itself. Anti-business sentiment must be combated at the spot where it arises—much of it in the schools. Business has been very ineffective in presenting its side of the picture. It has a side. Why not present it?

The Committee on the Educational Use of Commercial Material of the Home Economics Association has formulated a check-list for manufacturers and others who find it difficult to produce consumer-education material acceptable to schools and colleges. The purpose of the list is not to give an exact numerical rating to educational material considered by manufacturers, but rather to set up a standard as a means of checking on the presence or absence of desirable features. The following factors are included:

First, scientific accuracy of subject matter—free from half-truths; free from exaggerated statements; backed by standard laboratory tests; backed by recognized authorities; backed by the signature of the author and his professional title; backed by name of firm or organization publishing it.

Second, timeliness of subject matter—furnishes the most recent information; gives date of publication; meets the needs of the times; adds information to that available in most textbooks.

Third, factual—not cluttered up with irrelevant material; well-organized; simple, clear, brief; attractive format; durable; graphic; well-illustrated; easy to read, sight-saving; appropriate for group for which it was intended.

Fourth (and very important), subject matter not biased by advertising; clear-cut educational purpose; information about products in general rather than promotion of specific brands; text free from adver-

ising; posters and charts free from advertising.

Educating the consumer through naterial prepared to these specifications will do much to eliminate antibusiness sentiment. Business would lo well to follow the advice of Mr. Nardin when he says, "Abandon his attitude of fear. Give your cusomers the facts they want. If people realize how important they are to business and how important business is to them, they will see how foolish it would be for business to impose on them. The movement for cooperatives, the movement for drastic consumer legislation, the movement for business control would be quashed—through understanding."

The Federal Income Tax Law and the Individual Taxpayer

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THE adoption of the sixteenth amendment to the Constitution of the United States on March 1, 1913, made Federal income ax legislation constitutional. Since hat date, nineteen Federal income ax laws have been enacted. The nost recent, entitled "Revenue Act of 1941," became a law on September 20, 1941.

The 1941 act is not a complete aw in itself. The last complete law vas enacted in 1938, and the subseuent enactments (two in each of he years 1939, 1940, and 1941), conist primarily of amendments to the 938 law.

The newspapers have already roken the news more or less gently o the American taxpayer that he is estined henceforth to contribute a surprisingly large portion of his income to the support of his government. In this article an attempt will be made to point out some of the more important features of the current law and to indicate the general way in which it will be applied, with especial reference to the individual taxpayer.

Requirement as to Filing a Return. For the twenty-seven years, 1913 to 1939, inclusive, an individual's obligation to file a return was determined primarily by the amount of his *net* income. In the first 1940 law, however, it was provided that this obligation was to be determined by the amount of the individual's *gross* income. This provision is continued in the 1941 act. A return must be filed for the year

1941 by an individual who is single, if his gross income is $750 or over; and by a married individual, if the aggregate gross income of husband and wife is $1,500 or over. As was true under earlier laws, if both husband and wife have separate incomes, each may file a return, or they may include their combined income in a single joint return.

Every partnership must file a return for each taxable year. No tax is assessed against the partnership income directly, but each partner must include his share (whether distributed or not) of the earnings of the partnership, as reported in the partnership return.

Time of Filing Returns. Returns for a calendar year must reach the office of the collector on or before March 15. Returns for a fiscal year that does not coincide with the calendar year must be filed on or before the 15th day of the third month following the close of the fiscal year.

Rates of Tax. The net income of an individual in excess of certain credits allowed him is subject to a normal tax of 4 per cent, and to a surtax at various rates ranging from 6 per cent to 77 per cent. Under the immediately preceding laws, $4,000 of the net income in excess of the credits mentioned was free from the surtax. But under the 1941 law this "cushion" is omitted, and the first $2,000 of the "surtax net income" is subject to a surtax of 6 per cent. The next $2,000 is taxed at 9 per cent, and successive blocks of $2,000 (or more) are taxed at 13 per cent, 17 per cent, 21 per cent, 25 per cent, etc. These rates represent a very great increase in the percentages previously applied to small and moderate incomes. Thus the surtax on a "surtax net income" of $4,000 was zero under the 1940 law, but is $300 under the 1941 law. On $8,000 it was $200, but is now $900. On $14,000 it was $800, but is now $2,400. Further, it is to be borne in mind that these incomes (after being reduced by certain minor additional credits) are subject also to the 4 per cent normal tax already mentioned.

Taxable Net Income. Net income is generally thought of as the balance remaining after all costs and expenses have been deducted from the total of all items of income. But under the income tax law some kinds of income are not subject to tax, and some expenses are not allowed as deductions. A person's net income for tax purposes represents the difference between taxable income and deductible expenses, and may therefore be a very different amount from the net income shown by his books.

The most common kinds of taxable income are salaries, wages, fees, and commissions; profits from a business; gains on the sale of land, bonds, etc.; and rent, interest, and dividends. Included in the salaries subject to tax are (since 1939) those received from a state, territory, city, county, school district, etc. Salaries received from the United States government are likewise taxable.

Exempt Income. The most important items of income not subject to tax are (1) amounts received under a life insurance contract by reason of the death of the person

ısured; (2) certain annuities, or ɔrtions thereof; (3) the value of roperty acquired by gift or by in-eritance; (4) interest on the bonds f a state, a county, or a city; 5) interest on certain obligations of ıe United States; and (6) com-ensation for injuries or sickness.

Deductible Expenses. In the ıatter of expenses a first distinction ıust be made between business ex-enses, i.e., expenses related directly ɔ the earning of income, and those xpenses that are purely personal. Iost business expenses are deduct-ɔle. Thus, if a person owns a build-ıg occupied by a tenant, he may educt from the rent received the rdinary repairs to the building and ɔ the furnace and other equipment; ıe cost of fire and windstorm in-ırance; real estate taxes on the roperty; interest paid on a mort-age; depreciation of the building nd the equipment; and the cost of ny utilities furnished, such as ᐧater, heat, or light. The wages of janitor, the cost of advertising the roperty, and real estate agents' ɔmmissions are likewise deductible.

Personal Expenses. It will be ob-ɛrved that the expenses above amed are directly connected with ıe earning of income. Opposed to ıese business expenses are the indi-idual's personal expenses, such as ıe rent of his home, the cost of his ɔod, clothing, life and accident in-ırance premiums, premiums for fire nd tornado insurance on his home, ɛpairs and operating expenses of leasure automobiles, etc. Such ex-ɛnses are not deductible. There are, ɔwever, four classes of personal ems which are exceptions to the general rule, and are allowable as deductions in determining the net income subject to tax:

First, taxes: Real estate taxes and taxes on personal property are deductible, even though assessed against property which is wholly for one's private use. Federal income taxes, however, are not allowed as a deduction, even though they have been levied against income derived from a trade or business. In those states, however, in which a state income tax is levied, such a tax is deductible in computing the income subject to Federal taxes. An automobile license fee is deductible, even though the car is used only for pleasure. Taxes paid on social club dues and on admissions are deductible. Special improvement taxes are *not* allowed as a deduction, because the local benefits for which they are levied, such as street pavements, lights, sewers, water main extensions, etc., all tend to increase directly the value of the property against which the assessments are charged. In this connection it is important to note that usually a special improvement assessment is paid in annual installments, and that a year's interest on the unpaid balance of the assessment is paid each year when the installment is paid. This interest is a deductible expense.

Second, interest: Most interest paid by a taxpayer is deductible, even though paid on obligations that are distinctly personal, such as a personal note, or the mortgage on his home. If, however, he has borrowed money to buy city or county or school district bonds or other securities the income from which is

not taxable, the interest he pays on the indebtedness incurred to purchase these is not deductible.

Third, losses: Most personal losses are deductible, though not all. Thus the loss of one's private residence by fire or storm is deductible, as is also the theft of one's jewelry, or pocketbook, or silverware. The amount received as insurance is first to be deducted from the total amount lost, to determine the net loss that may be claimed.

Fourth, contributions: Gifts made by an individual for charitable or similar purposes specified in the law are allowable as deductions to a total amount not in excess of 15 per cent of the taxpayer's net income. Among deductible gifts are those made to a governmental unit, for public purposes; to an organization formed for religious, charitable, scientific, literary, educational, or humanitarian purposes; and to certain military organizations. Such gifts are not deductible, however, if any part of the earnings of the organization receiving the gifts "inures to the benefit of any private shareholder or individual," or if any substantial part of its activities consists in attempting to influence legislation. Thus, gifts by alumni or others to a private school operated for the benefit of the owners of the school would not be allowed as deductions. A gift made directly to an individual or a family is not deductible.

Credits against Income. An unmarried person is entitled to a personal exemption of $750; i.e., the first $750 of his net income is not subject to tax. A married individual, living with husband or wife, or a "head of a family," is allowed a personal exemption of $1,500. As already stated, if husband and wife have separate incomes they may file either a joint return or separate returns. If separate returns are filed, the personal exemption may be divided between them in any proportion they may agree upon. Usually it will be advisable for husband and wife to file separate returns if their joint income in excess of their credits is more than $2,000, as they will thus get the benefit of lower surtax rates for each income. If, however, the income is received by only one of them, an arbitrary division of the income cannot be made in order that separate returns may be filed.

Sometimes a single person is supporting one or more dependents. If he can make it clear that he is the chief support of these persons, that they are related to him, and that the control and support of these dependents are based on some moral or legal obligation, he may qualify as "head of a family." In this capacity he is entitled to the same personal exemption as a married man, namely, $1,500, instead of $750.

Each child under 18 years of age, or other person incapable of self-support because mentally or physically defective, who was receiving his chief support from a married taxpayer throughout the taxable year entitles the taxpayer to a further credit of $400. This credit cannot be divided between two individuals.

A few years ago Congress gave serious consideration to the question of allowing a parent $400 credit in

the case of a son or daughter over 18 who was supported by the parent while attending school or college. The decision, however, was against granting the credit.

A taxpayer whose status as head of a family results from his having one or more dependents for each of whom he would be entitled to a $400 credit is under the 1941 law denied the credit for one such dependent. Thus, if he has one dependent only, he has a $1,500 personal exemption, but no $400 credit. If there are two dependents, he has the $1,500 personal exemption, and a credit of $400 for one dependent only. If the status of the taxpayer changes during the taxable year, the personal exemption and credit are apportioned in accordance with the number of months before and after such change. For the purpose of the apportionment a fractional part of a month is disregarded unless it amounts to more than half a month, in which case it is considered as a month.

The personal exemption and the credit for dependents are to be applied against the income before computing both the normal tax and the surtax. Certain additional credits are allowed for the purpose of the normal tax only—namely, interest on certain United States obligations and on the obligations of certain corporations classed as "instrumentalities" of the United States, and an "earned income credit."

"Earned income" means wages, salaries, commissions, professional fees, etc., as opposed to income from interest, dividends, rent, etc. One-tenth of a taxpayer's earned net income (with certain limitations) is free from the normal tax and constitutes the "earned income credit" above referred to.

The distinction between earned income and other income is not maintained consistently in the law: The first $3,000 of every taxpayer's net income is treated as earned income whether actually earned or not; and if a taxpayer receives a net salary or other compensation in excess of $14,000, only the first $14,000 thereof is considered to be earned income. If a taxpayer operates a business of his own, 20 per cent of his net profit is treated as earned income (with a maximum limit, again, of $14,000). If a taxpayer is a member of a partnership and devotes all or part of his time to its affairs, an appropriate part of his share of the net income of the partnership (but not in excess of 20 per cent of his share) is treated as earned income.

Cash Method and Accrual Method of Computing Net Income. A taxpayer may under certain circumstances be permitted by the Revenue Bureau to report his income on the cash basis. Net income can, of course, be accurately determined for any year only when all income earned during that year, whether received in cash or not, is included; and when all expenses incurred are taken into account whether or not payment for these has been made. Nevertheless, most individual taxpayers, if not engaged in business, report their income on the cash basis because of its greater simplicity.

A taxpayer engaged in the prac-

tice of a profession—a physician, for example—may report each year an amount of net income based on either the total fees charged on his books, or the total fees collected irrespective of the amount charged. If he elects to follow the latter method, he cannot claim any losses resulting from uncollectible accounts, inasmuch as the value of the services which gave rise to the accounts was never reported as taxable income.

Sales and Exchanges of Property. The entire amount of gain or loss resulting from the sale of property, or from its exchange for other property, is usually recognized for tax purposes. But there are many exceptions, among which are the following:

Real estate may be exchanged for other real estate, machinery for other machinery, or an automobile for another automobile, and if no cash (or other property of a kind different from the items exchanged) is received "to boot," no gain or loss will be recognized, unless the taxpayer is a dealer in the property exchanged. But if stocks are exchanged for stocks, or bonds for bonds, or any property for a different kind of property, the gain or loss is usually recognized. However, if common stock in a corporation is exchanged wholly for common stock in the same corporation, or preferred solely for preferred in the same corporation, no gain or loss is recognized.

If, in connection with a consolidation or a reorganization, a taxpayer exchanges securities of one of the companies concerned solely for securities of another of the participating companies, no gain or loss is recognized.

If cash or other property is received "to boot" when an exchange occurs that would otherwise not lead to the recognition of gain or loss, a gain is recognized, but a loss is not. The amount of gain recognized in such a case will not be in excess of the amount of "boot" received.

Capital Gains and Losses. In England, capital gains are not taxed and capital losses are not deductible. In the United States, however, each of the series of income tax laws has provided for the recognition of such gains and losses wholly or in part.

Under the 1938 act, capital assets are defined as any property held by the taxpayer, except that which constitutes his "stock in trade" and which he would expect to sell to his customers in the ordinary course of his business, and except property, used in the trade or business, which is subject to an allowance for depreciation.

Capital gains and losses are classified as "short-term" or "long-term," depending upon whether the capital asset disposed of had been held (a) for not more than 18 months, or (b) for a period longer than 18 months. In determining the net taxable income of a taxpayer it is necessary to offset short-term capital gains against short-term capital losses, in order to determine the *net* short-term capital gain or loss; and to offset long-term capital gains against long-term capital losses, to the extent that each is to be taken

into account, in order to determine the *net* long-term capital gain or loss.

There is, however, an important provision affecting only net *short-term* losses and gains: A net short-term capital gain is fully taxable, but a net short-term capital loss is not deductible from a taxpayer's income. Such a loss may, however, with certain limitations, be carried forward and applied against short-term capital gains of the succeeding year.

The law further provides that in the case of taxpayers other than corporations there shall be taken into account only ⅔ of a capital gain or loss if the asset has been held more than 18 but not over 24 months, and only ½ of the capital gain or loss if the asset has been held more than 24 months. An alternative method of computing the tax is provided, also, by which (1) the tax on a net long-term capital gain will not exceed 30 per cent of such gain, and (2) the tax on a person's other income will not be reduced by more than 30 per cent of a capital net loss.

Sale of Property Received as a Gift. If property is sold which was given to the taxpayer before January 1, 1921, the basis for determining the taxable gain or the deductible loss is the value of the property when it was received. But in the case of property received as a gift after December 31, 1920, the basis for determining the taxable gain resulting from a sale of the property is the same as it would be in the hands of the donor, or in the hands of the last preceding owner by whom it was not acquired by gift. For the purpose of determining loss, the basis shall be that just stated, or the value of the property at the time of the gift, whichever is lower.

Sale of Property Received by Bequest, etc. If property is sold which was acquired by bequest, devise, or inheritance, the taxable basis is its fair market value at the time of the decedent's death, regardless of the time when the taxpayer came into possession of the property.

Taxation of Estates and Trusts. In general, the income of an estate or trust is taxed when received by the various beneficiaries if the income is being distributed currently. If the income is not being distributed but is being held by the trustee, the trustee must pay a tax on the income at substantially the same rates as an unmarried individual would pay.

Optional Special Method for Computing Taxes. The 1941 law includes a special rate schedule which may be used, at his option, by an individual whose gross income is $3,000 or less and is derived wholly from one or more of the following sources: salaries, wages, or other compensation for personal services; dividends, interest, rent, annuities, or royalties. The purpose of this provision of the law is to permit a taxpayer to determine his tax with the least possible effort. The computation by this method is not an exact one, and seems very likely in most instances to result in a higher tax than that which would be determined in the usual way.

Under the optional method an individual having, for example, a gross income over $1,975 but not over $2,000 would pay a tax of $104 if single, or $37 if married (but without dependents). For each dependent, $400 would be deducted from the gross income, and the tax would be determined as if the remainder were the total gross income.

The computation of the tax under the two methods may be illustrated as follows:

H, a married individual with two dependents, receives a salary of $2,900, and has the following allowable deductions:

Taxes on his residence	$ 90.00
Personal property taxes	23.50
Automobile license	6.50
Interest on mortgage	164.00
Contributions	56.00
Total	$340.00

(1) Computation by optional method:

Total gross income	$2,900
Deduct for two dependents	800
Remainder	$2,100

The table contained in the law shows that the tax on $2,100 by the optional method is $45.

(2) Computation by usual method:

Salary		$2,900
Less deductions		340
Net income		$2,560
Less: Personal exemption	$1,500	
Credit for dependents	800	2,300
Income subject to surtax		$ 260
Less earned income credit (10 per cent of net income, $2,560)		256
Income subject to normal tax		$ 4
Surtax, 6 per cent of $260		$15.60
Normal tax, 4 per cent of $4		.16
Total tax by usual method		$15.76

$45 (above) less $15.76 leaves $29.24, saving in tax in this instance by the use of the ordinary method.

After a taxpayer has filed a return under either method, this choice is irrevocable for the taxable year.

Saving for Next Year's Tax Payments. Although each year's taxes may be paid in four installments, warnings have been issued from many quarters, including the Federal Government, to the effect that taxpayers are in danger of finding themselves unable to make the greatly increased payments when these fall due. It may properly be suggested, therefore, that every prospective taxpayer determine at once his approximate tax for the year 1941, and set aside one-twelfth of this amount out of his income at the end of each month, beginning not later than December 31. If the taxpayer will invest the money thus set aside, in "tax saving notes," he will receive credit for a small amount of interest when these are used in making his quarterly tax payments.

Inflation and Problems of Price Control

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AMERICA is committed to a defense program on an unprecedented scale. Our task is to create an armed force and equipment strong enough to meet any challenge and to provide war materials for certain other nations. The task is stupendous. The production of materials on such a scale places unpredictable stresses and strains on our peacetime economy. Yet we must produce. The demands now are for *both* guns and butter. The real test is in our ability to produce both with the greatest possible efficiency and economy and with the least possible disorder.

The costs of the program are great. Time alone can tell how much greater they may become. Already approximately $63,000,000,000 has been appropriated or authorized for the purpose of putting the Army and the Navy on a footing strong enough to make this nation secure from attack and to aid certain other countries. In the present fiscal year the Federal Government expects to spend approximately $25,000,000,000, of which about 70 per cent will go to national defense alone.

That we are at the present in a sort of "boom" period is well known. Many people have larger money incomes than they have had for years. More people are at work making defense materials, and labor shortages have developed for the first time in many years. The cost of living is still below that of 1929 and, although rising, is not rising so fast as the money-wage index. Taxes are rising. Shortages are developing in many lines as a result of production changes. Hence it may be said that many elements in our society are not enjoying the present "boom" period, so-called. It may also be said that the large majority of our business men would much prefer to carry on their enterprises with normal production, experimentation, and research and forgo the spectacular in production. This, however, cannot be done.

The sudden accentuation in business activity resulting from the rearmament program has brought about certain behavior patterns in our economy, practically identical with those of the World War. A nation with any semblance of free economy cannot shift overnight from the production of peacetime materials to the manufacture of war supplies without disrupting the prevailing price and production structure. We are trying to reach maximum war-footing output in minimum production time. In other words, we are trying to do in about two years what it took Hitler over five years to accomplish under most highly regimented methods and controls. Since the economy of our

the case of zinc, on which the price was raised from 7.5 cents to 9 cents a pound in order to stimulate production. Since the product of the industry or mine is badly needed, it proves to be a relatively inexpensive price to pay to get the product. The disadvantage of a more favorable price to the most efficient, low-cost producers is viewed by the Government as offset by the advantage of increased production of units which can produce only under a more favorable price. This practice can be condoned only in view of the stress of the emergency and as a short-run venture. The net total cost of products so badly needed may be less than if we went to the extreme of trying to import the product over a perilous 12,000 miles from the other side of the world.

After a commodity has been selected, the price of which is to be brought under a ceiling, the first step is to call together the representatives of the largest producing units of the commodity. These representatives select from their own number a smaller group of men who constitute the Committee for the industry. The representatives of the Office of Price Administration then deal directly with this Committee. Hearings are conducted in which the problems of the industry are presented and explanations advanced for the rise in prices. After exhaustive inquiry, a ceiling is announced which applies to the entire industry. An elastic feature is provided in allowing for the exception of those concerns on which the ceiling may work an undue hardship or injustice. This feature is highly desirable, for it is obviously impossible that a blanket price quotation can adequately care for all cases.

After a ceiling is made and imposed, the Office of Price Administration has to depend mainly upon the cooperation of the concerns in the industry in making it effective. The Office has no legal authority to enforce its decisions. If cooperation is not effective, then priorities may be invoked. Another indirect means of "encouraging cooperation" is to ask for a Federal Trade Commission investigation, as was done in certain chemical markets. Anti-trust laws have likewise been used on something over forty offenders who did not fall into line. The last-named methods have been quite effective.

The chief difficulty encountered in establishing a ceiling is the opposition of a pressure group or groups of the industry involved. Frequently the strongest group is the trade association of the specific industry. These pressure groups are very vociferous and generally powerful. They are well organized, with capable, paid secretaries who keep their members informed on price matters. Often these trade associations enlist the support of their representatives in politics if price fixing is not to their liking. It is imperative that the ceilings be drawn up with a minimum of dissent on the part of the members of the industry involved, for the success of the price ceiling depends upon the cooperation of the concerns on whom it is imposed. In general, the Office of Price Administration has received

the cooperation of industry. Generally, willingness to cooperate is in direct relationship with present or anticipated profits. As an official of a certain pressure group was heard to say, "We are very anxious to cooperate with the Government, but we just don't want to lose any money." In general, after a ceiling is imposed the business man in the industry favors it, for he has a chance to know exactly what price will prevail, and is thus afforded an opportunity of bringing his own production costs into line with the ceiling price.

Another major difficulty which confronts the price makers is the policy of certain elements of the Government itself. The rising wage rate is generally cited by industry as the main cause for price advance, and not without reason. The comparative figures for the first two years of the World War and the first two years of the present program show the following increases in wholesale prices, living costs, and wage rates:

	Wholesale prices	*Cost of living*	*Weekly wage rates*
July, 1914—Aug., 1916	26.4%	10.6%	15.2%
Aug., 1939—Sept., 1941	21.9%	8.2%	26.5%

Prices and costs rose in both periods under consideration but between August, 1939 and September, 1941 wages outstripped both prices and costs. This condition is due in part to better organization of labor groups and aggressiveness of their leaders in getting wages upped early in anticipation of increased living costs, and for other reasons. In this attempt they have clearly enjoyed the blessing of the Administration. No one is willing to speak of a ceiling on wages except in subdued tones. It has been said that such an act would, in reality, set a ceiling on incomes, and that it would be a case of involuntary bondage. Such statements ignore the elemental truth of the part played by wages in production costs.

A similar problem, in which politics is clearly involved, is the refusal to apply ceilings to certain agricultural commodities. Farmers, like industrial workers, do not want anything to interfere with their income. This is true despite the fact that rising food prices account for more than two-thirds in the increased costs of living since the war started. At present farm prices are well above parity as calculated by the Government's formula, and farm income is equal to the 1929 level. Any limitation, such as a price ceiling, placed upon farm products is certain to result in pressure upon the farmers' representatives in Washington, who go so far as to threaten the price fixers with fine and impeachment. An example is that of the ceilings on cotton goods, which are practically futile so long as the price of raw cotton is allowed to rise in the open market and pass through parity prices. The Government holds several million bales of cotton, the sale of which could have been effectively used to keep cotton prices from advancing, thus serving the dual purpose of holding prices within limits and getting out of the cotton business. Such a course would have had beneficial effects for all

consumers of cotton and would have preserved the mill-margin of the cotton-goods manufacturer, who was clearly caught in the squeeze between rising cotton prices and the ceiling on his manufactured products. It could also have served as a warning that the Government could and would buy or sell in the open market if need be, for the purpose of price stabilization and control.

This leads to a very important and frequently asked question—can prices be fixed? The answer is that some prices can be fixed but it is utterly impossible to fix all the myriad of prices in our complex economy. The best we can do in our present set-up is to fix the most significant and basic prices, including their component parts of wages, rents, interest, and profits and depend upon the cooperation of all of us for keeping other prices within limits. The cooperative plan cannot be trusted too far, but it promises to be more effective in our economy than anything else. No one would want to see Gestapo methods of policing invoked; they are known to be a failure even in highly disciplined Germany. At best, price fixing can only be a temporary, short-run, emergency measure. Under the stimulus of rising prices, the most efficient concerns make more than normal profits and marginal concerns likewise rise to higher levels of production, efficiency, and profit. The price ceiling therefore must be sufficiently high to allow for profits and thus encourage maximum production. If set too low, it will discourage production, restrict profits, and lead to "bootlegging," an art in which experience has demonstrated our aptitude. In the long run, a price ceiling will check the profits of a concern and stifle the incentive of industrial growth and expansion in a free economy.

Complete price control cannot be effective so long as commodities are picked at random or piecemeal on such bases as previously outlined. The only effective plan is to "freeze" or fix all prices and their component parts at the level of a certain date and hold them there as nearly as possible. This method would tend to settle the question frequently heard by those in the Office of Price Administration, "Why pick on me and fix my prices? I'm only a little, unimportant producer." A blanket price-freezing order would bring certain injustices and hardships and even tend to discourage production of some goods. These problems, presumably, could be dealt with just as hardships from imposition of priorities are being corrected. In an emergency such as this, not all economic relationships can be worked out with great smoothness and finesse. Such a price-freezing law applicable to all parts of our economy would certainly tend to distribute the good along with the bad.

The bill now before Congress (The Emergency Price Control Act of 1941, S. 1810) will not accomplish the desired ends of price control. None of the artificial devices set up by the Administration in the past ten years to keep prices up have been disturbed. The bill specifically declares (Sec. 3a) that "no ceiling

shall be established for any agricultural commodity below 110 per cent of the parity price." This encourages all farm prices below parity prices to rise to 10 per cent above parity. The bill further says (Sec. 302c) that "nothing in this act shall be construed to authorize the regulation of compensation by an employer to any of his employees." Since the bill specifically eliminates price control of food and wages, it is in reality a bill which will increase the cost of living and production costs rather than reduce them. The bill evidences the fact that the Administration is afraid to oppose the two large voting groups representing labor and the farm lobby, each of which insists on immunity from governmental price control. Immunity granted to one would fortify the case of the other in refusing to submit to control.

For the good of our whole economy both now and in years to come, it is desirable that a price control law be enacted very soon. The sooner it is enacted the better. The fact is that prices and living costs are rapidly rising and will rise faster as our nation becomes more and more involved, and scarcities become increasingly aggravated. Unless the present emergency program is being used as a mask to disguise further social reform, the drawing of a price control bill should not be too complicated. If our traditional economy of free enterprise is to be preserved, it is imperative that such a bill be drawn very soon, and drawn with the view of preserving our economic structure, not of protecting certain political groups.

Certainly the need for protecting and preserving the total economic and social gains we have made is greater than political partisanship. The way to stop inflation and protect our gains is to recognize all the factors that have a part in bringing it about; then do something about it by enacting a law which will be as effective as possible as quickly as possible—not just talk about it. Clearly, this is the most effective way to preserve the especially desirable features of our free economy and to avoid many of the economic dislocations and disasters that come with deflation. The best possible law to control prices and the fullest cooperation on the part of everyone will be powerful weapons in our economic armament.